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UNFPA – Financial, budgetary and administrative matters

UNITED NATIONS POPULATION FUND

REVISION OF UNFPA FINANCIAL REGULATIONS AND RULES

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Executive Director of the United Nations Population Fund (UNFPA) on the revision of UNFPA Financial Regulations and Rules (DP/FPA/2009/12). During its consideration of the report, the Advisory Committee met with the Deputy Executive Director (External Relations, United Nations Affairs and Management) and other representatives of the Fund, who provided additional information and clarifications.

2. The revisions to UNFPA Financial Regulations and Rules relate to requirements for the implementation of International Public Sector Accounting Standards (IPSAS), which will replace the United Nations System Accounting Standards (UNSAS), as well as changes and additions which aim to achieve greater harmonization with other United Nations funds and programmes. The Committee was informed that, in some instances, these latter changes were proposed to more accurately reflect current practices and operational requirements.

3. The Committee notes that UNFPA intends to adopt IPSAS in a phased approach starting in 2010 and expects to be fully compliant by 2012. Biennial financial statements in accordance with UNSAS will continue to be submitted in 2010 and 2011. Effective with the 2012 financial statements the Executive Director will submit financial statements annually in accordance with IPSAS.

4. The Advisory Committee was informed that UNFPA had undertaken internal consultations during the process of revising UNFPA Financial Regulations and Rules, including with its Legal Office, the Division of Oversight Services, the Operations and Executive Committees and the Audit Advisory Committee. **The Committee commends UNFPA for pursuing wide consultations and involving the**

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relevant entities throughout the process. The Committee also notes the inclusion in the document of clearly marked deleted text, new text, and reasons for the changes, which facilitated its consideration of this item.

5. The Committee was provided with a summary of the changes to UNFPA Financial Regulations and Rules as follows:

(a) Revisions related to the adoption of IPSAS:

- Changes allowing adoption of IPSAS starting in 2010 with full compliance in 2012 (regulation 16.1; rules 116.1(a) and 116.2(b)).
- Changes in terminology to reflect IPSAS standards, including the replacement of UNSAS terms "expenditure" and "income" by "expense" and "revenue".
- Elimination of the terms "biennial" and "biennium", used to qualify the period of the support budget and audited financial statements (see paragraph 7 below).
- Elimination of regulations and rules that do not reflect IPSAS concepts or standards, such as regulations dealing with unliquidated obligations.
- Elimination of regulations and rules dealing with accounting treatment, which is specified by IPSAS. Examples include rules 104.1, 104.2 and 104.3 for the recording of pledges, payment of voluntary contributions in currencies other than United States dollars and gains or losses resulting from exchange adjustments from payments of voluntary contributions.
- Changes to the definitions of terms under regulation 2.2 to comply with IPSAS standards, and introduction of a statement allowing implicit recognition of IPSAS definitions in UNFPA Regulations and Rules.

(b) Other changes related to the harmonization of UNFPA Financial Regulations and Rules with those of other United Nations funds and programmes:

- Replacement of the term "multi-year funding framework" by the term "strategic plan" (see Executive Board decision 2007/11).
- Elimination of regulations and rules of a procedural nature which are detailed in other manuals or repeated in other existing regulations and rules, such as the subsection in regulation 14.2 concerning the Internal Control Framework.
- Revisions relating to sector budget support, including introduction of regulation 7.6, addition of a new definition in Regulation 2.2 and revision of regulations 15.2 and 17.2.
- Introduction of regulation 4.15 pertaining to the retention of interest of investment revenue with respect to Trust Funds.
- Introduction of regulations 7.5 and 5.5(b) pertaining to funding of financial authorizations from regular resources and trust funds respectively, which allow UNFPA to begin programme spending under certain circumstances without receipt of cash.

6. With respect to IPSAS terminology, the Committee notes that the new terms are not always equivalent to the existing terms being replaced. For example, the UNSAS term "expenditures" includes unliquidated obligations while its IPSAS counterpart "expense" excludes unliquidated obligations but includes goods and services received. The Committee was informed that with the adoption of IPSAS, a statement of reconciliation explaining the differences between the budget and the financial statements would be provided.

7. With the elimination of the terms "biennium" and "biennial", the support budget would cover the costs of programme support and management and administrative services of UNFPA for "one or more years" rather than "a period of two calendar years". In this connection, the Committee is of the view that the period of the support budget should be specified in the UNFPA Financial Regulations and Rules.

8. The Committee was informed that in preparing the revisions to its Financial Regulations and Rules, UNFPA had consulted with the World Food Programme (WFP), which had transitioned to IPSAS in 2008. Upon enquiry, the Committee was further informed that work continued on the harmonization of the Financial Regulations and Rules of the United Nations system organizations in the context of the working group of the Finance Network of the High-level Committee on Management (HLCM) of the Chief Executives Board for Coordination (CEB). It was expected that the participating organizations of the working group (United Nations Secretariat, UNDP, UNICEF, UNFPA and WFP) would finalize a harmonized set of financial regulations and rules which are IPSAS-compliant towards the end of 2010, and which would subsequently be presented to the governing bodies of the various organizations. Given this timing, the Committee regrets that it will not be possible to adopt harmonized financial regulations and rules in time for the transition to IPSAS, and that consequently, UNFPA and the other organizations each have to revise their current financial regulations and rules, entailing considerable duplication of effort. **The Committee stresses the importance of ensuring system-wide coordination in dealing with these matters.**

9. **The Committee emphasizes that the revisions to the UNFPA Financial Regulations and Rules required for the transition to IPSAS, as well as those related to greater harmonization with the financial regulations and rules of the other funds and programmes, should not lead to any substantive change in the relationship between the Executive Board and the Executive Director.** In this regard, the Committee notes the introduction of a new regulation 4.15 as follows: "Interest or investment revenue with respect to Special Accounts and Trust Funds shall be retained unless otherwise authorized by the Executive Director." As indicated in the report of the Executive Director the introduction of this regulation would provide harmonization and standardization with UNICEF on the treatment of interest or investment revenue. Furthermore, a new regulation 5.5 is proposed, which provides in paragraph (b) that "...allocations may be made on the basis of receivable earmarked contributions, in accordance with the risk guidelines established by the Executive Director". The Committee does not object to this provision, it being understood that the risk policies of UNFPA would first be approved by the Executive Board.

10. **Subject to its observations in paragraphs 7 and 9 above, the Committee recommends that the Executive Board take note of the Executive Director's report (DP/FPA/2009/12), and approve the revisions to the UNFPA Financial Regulations and take note of the changes to the Rules contained therein. The Committee will revert to this matter in the context of its consideration of the harmonized financial regulations and rules (see paragraph 8 above).**